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Our social responsibility related to fraud

He's a fraudster, a bilk, a cheater and a conman. A chiseler, a dirty shark and a sharpie. A finagler, skinner, swindler and trickster¹. Who knew there were so many words for fraudster?

The varied incarnations of the fraudster talks to the changing, pervasive and culturally agnostic nature of fraud. Wherever there is trust, there is fraud. All fraud includes a betrayal of trust. This makes fraud one of the more heinous crimes in an age where many of our economic interactions are based entirely on trust: when I buy something at a shop I seldom question whether it is what it claims to be; when I swipe my card and am told I have paid a certain amount, I do not question whether that was what actually left my account; when an expert makes a pronouncement, am I to question every comment? However, increasingly, we are required to be sceptical of anything which is represented to us, and this is because of fraudsters in their various guises. The erosion of trust is a basic social problem, which businesses are increasingly expected to address and evidence through the social aspects of their environmental, social and governance (ESG) programs and reporting.

Bing tells me that: "Fraudsters are individuals who engage in deceptive practices to gain financial or personal benefits. They often use various tactics to trick people into giving away money, personal information, or other valuable assets."² As this is an article in an "insurance survey" we will narrow this down to financial crime and, in-particular, insurance fraud.

My colleagues, Shirley and Eugene, have included an insightful and thought-provoking piece in this survey, *Mitigating insurance fraud risks*, which highlights the increasing trend of insurance fraud and the extent of the problem for the insurance industry. Whilst their article delves into the processes and controls relevant to fraud prevention, this article will explore the social and psychological aspects of fraud. As we will see,

fraud is deeply interconnected between businesses, individuals and communities. Hopefully I will convince you that fraud in South Africa is a deeper-seated problem than one which can be solved only through internal processes and controls.

South Africa has various socio-economic problems which link directly to the psychosocial risk factors which increase the likelihood and incidence of fraud. With the increasing emphasis on ESG responsibilities, this article provides a practical, real-world link directly into the social aspects. I will argue that insurers' social responsibilities require community-based interventions to address the root cause of fraud. In fact, without these interventions the incidence of fraud in South Africa is likely to continue to increase. However, these interventions will help insurers meet their social obligations and concurrently address some of the root causes of financial crime and insurance fraud.

Fraud prevention as conceptualised in the insurance industry is often about preventing insurers (or the policyholders) from being exposed to fraudulent attacks. This approach does not necessarily consider the root cause of individuals or organisations pursuing fraud in the first place. Why is it that these individuals choose to pursue a life of crime? As people often say, "if those crooks spent as much time and energy on honest pursuits they would be gainfully employed." So why is it that they are not gainfully employed? Put another way, fraud entails a decision to illegally exploit an opportunity to obtain some incentive – our question is why do some people make that decision? We will double-click on the attitudes and rationalisations behind fraud in the South African context. This also leads to alternative interventions for consideration related to fraud prevention.

¹ <https://www.merriam-webster.com/dictionary/fraudster>.

² It is remarkable how easily you could replace "fraudster" with "politician" in this sentence.

However, before we get into the weeds let us consider the battleground. South Africa is a country with unique challenges and dynamics. I will assume that the reader of this article concurs that South Africa has an unequal economy, high rates of unorganised crime and advanced levels of organised crime. Consequently, I will only highlight a few key indicators which are relevant to the rest of this article. It is a well-established fact that economic inequality is positively correlated with crime^{3,4}, although the connection specifically to financial crime is not well explored. South Africa ranks amongst the worst in the world on income inequality as measured by the Gini Coefficient^{5,6}. This measure basically says that the gap between the rich and the poor in South Africa is extreme, even by international standards. Furthermore, the unemployment rate was around 33.5% in early 2024, and is particularly high amongst young job seekers⁷. The global organised crime index⁸ ranks South Africa seventh out of 193 countries on criminality, first in Southern Africa and third in Africa. It is because of these factors that we landed up on the Financial Action Task Force's grey list⁹.

If insurers were to do a "social risk assessment" like what many insurers are doing for climate and environmental risks, we would conclude that there are significant, increasing risks in South Africa which need to be proactively managed. In this context, the sociological and psychological factors which increase the likelihood of individuals committing fraud are considered social risks for insurers. We will explore these risks below.

At an individual level, fraudsters are driven by a variety of psychological motivations, which can be complex and multifaceted. The most obvious is personal financial gain. However, as a motivator for fraud in particular, this appears arbitrary. Financial gain also motivates people to work harder, study harder, invest more in their children's and their own personal development, amongst many other factors. The core psychological question to ask is why choose the criminal route rather than a lawful one?

We can draw a distinction between financial gain and greed, where the latter reflects on an internal experience, "an insatiable desire for material gain"¹⁰ and "an endless effort to satisfy the need without ever reaching satisfaction."¹¹ A key aspect of greed is the desire to possess more than one is entitled to. Without a belief that one is entitled to more than is being received it is hard to support the decision to take more than is being lawfully offered. This is true whether what is being offered is from one's employer, client, service provider or community. This is the traditional

"rationalisation" of fraud. Hollinger and Clark in a study of 12 000 employees concluded that "the more dissatisfied the employee, the more likely he or she was to engage in criminal behaviour"¹². If I believe I am being treated unfairly I am likely to rationalise taking more than my lawful due. This is commonly described as "wages in kind"¹³, in that employees are seen as supplementing their wages with unlawful fringe benefits.

In South Africa, this sense of entitlement is easy to understand, as social circumstances are often not fair, the economic reality is loaded against certain groups, and this unfairness is regularly highlighted by many of our leaders. It is easy to imagine that someone who is struggling to pay rent could compare their circumstances to the owner of the R700 million property in Camps Bay and feel that perhaps they are entitled to a little bit more. If you live in South Africa, you probably agree that in some sense they are entitled to more. The tension is that fraud is seldom a Robin Hood scenario where the "bad guys" are easily defined targets and therefore stealing from them is "morally justified"¹⁴. Fraud tends rather to hurt the common person, not the super wealthy. No individual organisation can redress historical inequalities, but within its sphere of influence organisations can promote a healthier narrative and practices.

³ <https://financesonline.com/how-income-inequality-affects-crime-rates/>

⁴ <https://www.economist.com/graphic-detail/2018/06/07/the-stark-relationship-between-income-inequality-and-crime>

⁵ <https://financesonline.com/how-income-inequality-affects-crime-rates/>

⁶ <https://ourworldindata.org/grapher/economic-inequality-gini-index?time=2019>

⁷ <https://tradingeconomics.com/country-list/unemployment-rate>

⁸ <https://ocindex.net/>

⁹ It is not all doom and gloom; we are also ranked first in Southern Africa for resilience to organised crime and fourth in Africa on this scale. This latter statistic refers to the advanced infrastructure we currently have which can combat organised crime, notably a strong business community and advanced laws and judiciary.

¹⁰ <https://en.wikipedia.org/wiki/Greed>

¹¹ Attributed to Erich Fromm

¹² <https://www.journalofaccountancy.com/issues/2001/feb/whyemployeescommitfraud.html>

¹³ <https://www.journalofaccountancy.com/issues/2001/feb/whyemployeescommitfraud.html>

¹⁴ If theft is ever morally justified it is a whole article in itself.



In terms of social risks which could impact insurers, the inequalities and related narratives in South Africa link directly to the risk of employee, policyholder and service provider fraud. Against this backdrop ESG reporting on fair practices within an organisation, and to its key stakeholders, would go some way in addressing a sense of entitlement (or unfairness) amongst these stakeholders. If an employee has a substantial body of evidence to support that their pay is market related and fair, it is harder to feel entitled to more. This combines with an open and transparent performance appraisal process¹⁵. However, can the board say with confidence that its remuneration practices are fair? What processes are in place to support this, and the communications mechanisms in place to share this information with staff? Similarly, if policyholders know that their premiums are reasonably priced and the 15% increase in operating profit is not at their expense, they might feel less entitled to fudge that claim. However, are policyholders really getting a fair deal and what evidence could you provide to them to support this position?

Unfortunately, many criminals still act as such in the face of a mountain of evidence that there is nothing special about them. As a consequence, they hold onto the belief that they are entitled to more than their peers. This talks to other psychological motivators. One of these is the psychological satisfaction obtained from these behaviours. This includes “a sense of power, control, or superiority derived from outsmarting systems and individuals”¹⁶. Vendettas against institutions are also seen as a motivator. In South Africa this could also extend to “the system” in general. When considering the structural forces which hold many in poverty in South Africa it is not a stretch to imagine a sense that the system is worth outsmarting, with employers or insurers identified as part of the system. Beating this system overcomes years of feeling powerless. It is also even perceived as the right thing to do. For decades the system in South Africa has been the bad guy and consequently this narrative is deeply embedded in South African consciousness. It is therefore not surprising that people may feel empowered and even satisfied when they find ways to outsmart the system.

Back to Robin Hood, when Robin leads his band of merry men to rob the nobility, he is perceived as a hero. If you have ever watched a Robin Hood film and rooted for Robin, you have bought into this mindset temporarily. As a business community and in conjunction with the government we need to address and change this narrative. Many insurers have extensive community outreach and social development programs, and positioning businesses in this context is important. The sense of powerlessness that supports these behaviours or the social anger which justifies fraud is something we will come back to.

Fraudulent behaviour also plays out in relation to self-esteem and self-image. “Fraudsters may engage in deceitful activities to appear successful, sophisticated, or influential to others. This psychological need for recognition and self-worth can be a powerful motivator.”¹⁷ Gangsters are portrayed as powerful and even stylish, whether in the Godfather or music videos. This motivator provides a good segue into the sociological factors underpinning fraud and organised crime.

Crime syndicates, gangs, mobs, cabals, cartels and bands of merry men; all synonyms for crime syndicates. These social entities operate within complex social, economic, political and psychological networks. As with individuals, financial gain is an obvious motivator for crime syndicates. With the high levels of unemployment in South Africa this makes the attractiveness of organised crime more obvious. However, as with the individual, the question is why people organise themselves into groups with the intention of breaking the law.

Crime syndicates are deeply embedded in their social environments with connections into legitimate business and political groups¹⁸. These syndicates often operate patron-client relationships where powerful individuals (patrons) offer protection, resources and status to less powerful individuals (clients) in exchange for loyalty and services¹⁹. For young men in particular this is an important factor. The sense of belonging, importance and social standing are key elements that attract youngsters into a life of crime²⁰. Yet ironically these are exactly the factors formal employment should also be offering: financial security, a sense of purpose and belonging, social standing and connections into power structures. Young men join crime syndicates when their own environment is failing to meet these needs, as much as, if not more than, for financial gain.

¹⁵ <https://financialcrimeacademy.org/understanding-fraudsters/>

¹⁶ <https://www.fraudio.com/blog/the-psychology-of-a-fraudster>

¹⁷ <https://www.crowe.com/uk/insights/understanding-the-psychology-of-a-fraudster>

¹⁸ <https://academic.oup.com/edited-volume/38662/chapter/335789089>

¹⁹ <https://www.ojp.gov/ncjrs/virtual-library/abstracts/syndicated-crime-its-structure-function-and-modus-operandi-crime>

²⁰ <https://onlinelibrary.wiley.com/doi/full/10.4073/csr.2018.11>

However, it goes further. The sense of identity and group loyalty offered by organised crime is intentionally reinforced through rituals and shared experiences. These organisations even have codes of conduct, which offer structure and clear rules²¹. All these aspects (shared experiences, rituals, structures and rules) are aspects of social development which should be coming from the community, school or family environment. Anxiety from uncaring environments and the breakdown of family structures contribute to the development of criminal behaviour. Lack of guardianship and positive role models can lead individuals towards crime.

In an ESG framework, the level of economic inequality, unemployment, a lack of social cohesion and disaffected youth are social risks which directly impact insurers' internal and external stakeholders and can lead to increased incidence of fraud. Insurers can play an important role in mitigating these risks and consequently the root cause of syndicated insurance fraud, whilst concurrently delivering on expectations related to social responsibility. Many insurers are involved in community-based programs and if anything, the above indicates that these are more important than ever. Insurers would do well to consider whether their fraud experience links to particular communities or regions. This would entail assessing whether there are trends in fraud experience which link them to geographic locations and communities. Once these are identified, insurers can proactively support local community-based programs to combat the root causes of crime. These programs also help in changing the narrative about the role of business as partner or bad guy.

Community-based programs play a crucial role in preventing youth involvement in organised crime by addressing the root causes and providing positive alternatives. There are various forms to these interventions. Programs that focus on education and practical skills-based training provide youth with the skills needed for gainful employment, reducing the allure of criminal activities²². Engaging youth in sports, arts and other recreational activities keeps them occupied and away from negative influences²³. These activities also help build teamwork and discipline. Strengthening family bonds through counselling and support services can create a stable home environment, reducing the likelihood of youth turning to crime²⁴.

These options obviously require some financial outlay to support relevant specialists, social workers, counsellors or community workers. However, the simple act of the giving of time can play an important role. Connecting youth with positive role models and mentors can guide them towards making better life choices. Mentors can offer support, advice and a sense of belonging.

Whether through financial support or the provision of time and human resources, supporting these programs, when effectively implemented, can significantly reduce youth involvement in organised crime by offering them hope, opportunities and a sense of purpose. These programs are also well aligned with the expectations under ESG frameworks, and have the added benefit of reducing the medium-term incidence of fraud.

Financial crime and insurance fraud are deeply embedded in individual psychological factors and social circumstances, which are particularly prevalent in South Africa. The connection between the story we tell about fairness and the rationalisation for committing fraud is something that can be actively managed and changed through proper reporting and communication. The connections between individuals, crime syndicates, communities, families and schools mean that combatting syndicated fraud requires community-based programs which tackle the problem at its root-cause. Regional and geographic fraud statistics could be seen as a barometer of what kind of social investment is required and where. Identifying and then partnering with relevant programs within these communities is a medium-term strategy to reducing the actual incidence of fraud, which simultaneously helps meet insurers' social responsibilities and talks to stakeholders' expectations under ESG frameworks.

²¹ VAN DER WESTHUIZEN, Marichen and GAWULAYO, Sibulelo. Youths in gangs on the Cape Flats: if not in gangs, then what? Social work (Stellenbosch. Online) [online]. 2021

²² <https://youth.gov/youth-topics/preventing-gang-involvement/prevention-efforts>

²³ <https://www.ojp.gov/pdffiles1/Digitization/164254NCJRS.pdf>

²⁴ <https://www.ojp.gov/pdffiles1/Digitization/164254NCJRS.pdf>